Technology – EMS

ESG Assessment Of Malaysia's EMS Sector

MARKET WEIGHT
(Maintained)

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Highlights

- We assessed competencies across 12 ESG dimensions for four Malaysia-listed EMS companies.
- VSI and SKP have established themselves as regional leaders through proactive measures while NATGATE and PIE are making impressive strides in their ESG journeys.
- **Maintain MARKET WEIGHT.** Tariff shocks and softening end-demand continue to cap sector momentum. **Top pick: VSI.**

Analysis

- **Peer universe.** For our benchmarking, we evaluate the four largest and most representative EMS players listed on Bursa Malaysia - VS Industry (VSI), SKP Resources (SKP), NationGate Holdings (NATGATE), and P.I.E. Industrial (PIE). This peer group captures a mix of high-volume consumer electronics manufacturing and specialised high-mix, low-volume (HMLV) segments.
- **EMS-specific ESG framework.** We assessed competency across 12 dimensions tailored to the electronics sector's material issues. Environmental factors focus on Scope 1 & 2 emissions, renewable energy, and energy efficiency. Social factors cover RBA compliance/human rights, safety (LTIR), and diversity. Governance evaluates third-party assurance, TCFD alignment, and ethics/anti-corruption.
- **Environmental factors (40% weightage)** include greenhouse gas (GHG) emissions (Scope 1 & 2), energy efficiency (solar adoption), water management, and waste/circular economy initiatives.
- **Social factors (30% weightage)** cover labour and human rights (RBA/EICC compliance), occupational health & safety (LTIR), workforce diversity, and talent development.
- **Governance factors (30% weightage)** evaluate the maturity of ESG disclosure (third-party assurance), board independence, ethical business conduct, and TCFD-aligned climate risk reporting.
- **Scoring methodology.** Each company is scored on a scale of 1 to 5 for each dimension. A score of 5 represents "Regional Best Practice" (external assurance, SBTi-aligned targets), while 1 represents "Basic Compliance" (minimal disclosure beyond statutory requirements). The overall score is a weighted average of these three pillars.
- **Commendable ESG excellence.** VSI and SKP are currently setting high benchmarks for the industry, particularly through VSI's pioneering use of external assurance and SKP's impressive solar energy initiatives. At the same time, NATGATE and PIE are showing great momentum in strengthening their own sustainability foundations, with NATGATE leading the way in board diversity and PIE focusing on robust safety and governance training. This shared progress across the sector ensures that Malaysia remains a resilient and world-class hub for electronics, as they work steadily toward the new ISSB reporting standards and their collective climate goals.

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
VS Industry	VSI MK	BUY	0.22	0.43

Source: UOB Kay Hian

ESG Scorecard with Ratings

Pillar	VSI	SKP	NATGATE	PIE
Environmental	4.4	4.2	3.5	3.2
GHG Emissions (Scope 1 & 2)	4.5	3.5	3.5	3.0
Energy Management / Solar	4.0	5.0	4.0	3.5
Water & Effluent Mgmt	4.5	4.0	3.0	3.0
Waste & Circular Economy	4.5	4.2	3.5	3.5
Social	4.6	4.0	3.8	3.5
Health & Safety (LTIR)	5.0	4.0	5.0	5.0
Labor & Human Rights (RBA)	5.0	4.5	3.5	3.0
Diversity (Board/Workforce)	4.0	3.5	4.5	3.0
Talent Mgmt (Training)	4.5	4.0	3.0	3.5
Governance	4.5	3.8	3.4	3.2
ESG Disclosure / Assurance	5.0	3.5	3.0	3.0
Board Independence	4.0	4.0	4.0	4.0
Ethics & Anti-Corruption	4.5	4.0	3.5	3.0
TCFD / Climate Risk	4.5	3.5	3.0	3.0
OVERALL SCORE	4.5	4.0	3.6	3.3

Source: UOB Kay Hian

Peer Comparison

Company	Tickers	Rating	Share Price 27 Apr 25 (RM)	Target Price (RM)	Market Cap (RMm)	PE Curr (x)	PE 1Y Fwd (x)	PE 2Y Fwd (x)	EV/EBITDA Curr (x)	EV/EBITDA 1Y Fwd (x)	P/BV 1Y Fwd (x)	Dividend Yield Curr (x)	Dividend Yield 1Y Fwd (x)
Technology – Electronic Manufacturing Services (EMS)													
NationGate	NATGATE MK	HOLD	0.79	1.02	1786.9	25.9	18.5	14.1	7.6	8.3	1.5	2.5	1.3
SKP Resources	SKP MK	HOLD	0.42	0.62	632.9	5.3	7.6	9.4	1.8	1.8	0.6	11.7	8.2
VS Industry	VSI MK	BUY	0.22	0.43	865.3	23.6	28.6	6.2	3.6	4.6	0.4	3.6	0.9

**based on the last financial year end*
Source: UOB Kay Hian

- **VS Industry (VSI MK) – the disclosure benchmark.** With its score of 4.5, VSI stands out as the most mature ESG player in the sector. It is the first among its peers to adopt the AA1000AS v3 standard for independent Type 2 Moderate Level assurance. This drastically reduces "greenwashing" risk and provides high-quality data (Scope 1: 1,136; Scope 2: 94,344 tCO2e). VSI also maintained a Lost Time Incident Rate (LTIR) of 0 for FY2025, underpinned by a 11,479-strong skilled workforce and automated monitoring. In terms of climate strategy, it is on track for its target of 15% GHG reduction by 2025, supported by integrated TCFD climate risk reporting.
- **SKP Resources (SKP MK) – the renewable energy leader.** With a score of 4.0, SKP has pivoted aggressively toward environmental stewardship. While others are in "initial rollout," SKP is already generating 552 MWh from solar PV systems. This provides a direct hedge against rising electricity costs and carbon taxes. FY2025 marked their first year of comprehensive Scope 1 and 3 reporting (Scope 1: 2,354 tCO2e), indicating a significant upward trend in governance quality.
- **NationGate Holdings (NATGATE MK) – social & diversity outperformer.** With a score of 3.6, NationGate shows strong performance in social capital and operational safety. In term of board diversity, Natgate leads the pack with at least 30% women directors on the board, well ahead of the regional average as well as 49% of its total workforce is female. Like VS, Natgate reported 0 work-related fatalities and an LTIR of 0 in 2024. SKP also reported a remarkably low Scope 1 footprint (124 tCO2e), though its Scope 3 reporting (988 tCO2e) is still in its infancy.
- **P.I.E. Industrial (PIE MK) – emerging maturity.** With a score of 3.3, PIE is currently in the ramp-up phase of its ESG journey. It achieved an LTIR of 0 and zero substantiated human rights complaints, which is critical for an EMS provider serving global MNCs. PIE also completed solar panel installations at major plants, which will begin reflecting in lower Scope 2 intensities in the coming years. In terms of governance, it is currently focusing on board education (ISSB IFRS S1 and S2 training) to meet the 2026 reporting requirements.

Scoring Scale (1.0-5.0)

Score	Description
5.0	Industry-leading, measurable impact, third-party assured
4.0 – 4.9	Strong disclosures, targets in place, partial assurance
3.0 – 3.9	Moderate maturity, qualitative initiatives, some metrics
2.0 – 2.9	Ad hoc practices, weak quantification or governance
1.0-1.9	Minimal or no disclosure; immaterial focus

Source: UOB Kay Hian

Valuation/Recommendation

- **Maintain MARKET WEIGHT; tariff shocks and softening end-demand continue to cap sector momentum.** Since 2024, EMS players have enjoyed a strong upcycle (industry sales/earnings: +49%/+2% yoy respectively in 2024), driven by trade diversion, post-inventory restocking, and incremental CPU/GPU-related demand tied to DC build-outs across Southeast Asia. However, the recovery proved short-lived; while order flows picked up during the 90-day tariff reprieve (2Q-3Q25), end-customers have since reverted to a cautious stance, keeping inventories lean amid softening demand, particularly across white goods and consumer electronics. Despite a 13% revenue rebound, sector earnings fell 43%, dragged by weaker operating leverage, a higher cost base, and adverse forex movements.
- **Outlook remains tempered,** with tariff uncertainties further amplifying demand elasticity and pressuring order visibility. Higher effective selling prices amid partial tariff pass-through, are weighing on volumes, while customers increasingly resist full cost absorption. Coupled with forex headwinds and softer end-demand, 2026 industry expectations have been materially revised down (sales/earnings now at -11%/+13%). This reflects: a) continued demand fragility, b) margin compression from cost-sharing dynamics, and c) structurally higher labour-related expenses. That said, valuations have de-rated meaningfully, with the sector now trading at -1SD below its seven-year forward PE mean, suggesting much of the downside is increasingly priced in, albeit lacking near-term re-rating catalysts.
- We like VSI: Its near-term outlook remains murky amid weaker white goods demand; however, decade-low valuations offer rebound optionality on any positive surprise. VSI trades at 6.3x FY27F PE (-1.0SD) and 0.4x FY27F P/B (-2SD), below even MCO trough levels (0.83-0.88x), suggesting limited downside with asymmetrical upside potential.

Full ESG Scorecard

Pillar	Dimension	VS Industry (VS)	SKP Resources (SKP)	NationGate (NATGATE)	PIE Industrial (PIE)
Environmental	Carbon Footprint	Scope 1: 1,136 tCO2e. Scope 2: 94,344 tCO2e. Target: 15% reduction by 2025.	Scope 1: 2,354 tCO2e (FY25). Scope 2: 66,989 tCO2e. Intensity tracking initiated.	Scope 1: 124 tCO2e. Scope 2: 34,031 tCO2e. Scope 3: 988 tCO2e (initial mapping).	Tracking Scope 2 (electricity). Participating in Pan-International Strategy Blueprint.
	Renewable Energy	Strategic solar investment; 16% reduction in energy intensity via solar & LED.	Solar Leader: Generated 552 MWh from rooftop PV systems in FY25.	Solar PV installed at Plants 1, 2, 3, and 5 to mitigate carbon footprint.	Completed rooftop solar installations at key manufacturing plants as planned.
	Water & Waste	26% reduction in water use; Rainwater harvesting assured by third-parties.	35,463 tonnes of waste diverted from landfill via industrial recycling partners.	Zero substantiated environmental non-compliance incidents.	Focus on production machinery energy efficiency and water recycling.
Social	Safety (LTIR)	LTIR: 0. Comprehensive automated safety monitoring system for 11k+ staff.	LTIR: 0. 100% of manufacturing staff received OSH and forklift safety training.	LTIR: 0. Zero work-related fatalities across all operations.	LTIR: 0. Zero fatalities; tracked via Bursa C5(b) indicators.
	Human Rights	RBA Member (since 2018). Zero-cost recruitment policy; external ethics audits.	Ethical recruitment framework; 100% compliance with minimum wage & labour laws.	High compliance with labour rights; zero complaints via grievance channels.	Zero substantiated complaints concerning human rights violations in 2024.
	Diversity	2 Female Directors. Acknowledges 30% MCCG target but prioritising meritocracy.	1 Female Director. Active NC oversight on board renewal and age distribution.	Leader: Achieved 30% Women on Board. 49% of total workforce is female.	29% Women representation on Board; 20% in Top Management.
Governance	ESG Assurance	AA1000AS v3: Independent Type 2 Moderate Level Assurance for all sustainability data.	Data verified via internal audit. Evaluating external assurance for 2026.	Managed by Sustainability Internal Working Group (SIWG); internal audit review.	Internal assurance only; board underwent ISSB IFRS S1 & S2 training in 2024.
	TCFD/Climate Risk	Full TCFD alignment; conducted physical & transition climate risk scenario analysis.	Progressing; identified climate change as a material risk factor in FY25.	Integrated climate resilience into risk management; focus on supply chain fragility.	Transitioning to IFRS S1/S2 requirements; initial climate risk mapping underway.
	Ethics & Anti-Bribery	100% operations assessed for corruption; zero incidents reported.	100% of Management and Executives received anti-bribery training in FY25.	100% of senior management trained in MACC Section 17A compliance.	Board-level briefings on anti-money laundering (AMLA) and red flags.

Notes: GRI = Global Reporting Initiative; TCFD = Task Force on Climate-related Financial Disclosures; ISSB = International Sustainability Standards Board; SBTi = Science-Based Targets initiative; TSR = Thermal Substitution Rate; WHR = Waste Heat Recovery; LTIR: Lost Time Incident Rate; RBA: Responsible Business Alliance; OSH: Occupational Safety and Health; MCCG: Malaysian Code on Corporate Governance; MACC: Malaysian Anti-Corruption Commission; AA1000AS v3: AccountAbility 1000 Assurance Standard.

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